

Homestead Valley Sanitary District
Financial Statements
June 30, 2023

HOMESTEAD VALLEY SANITARY DISTRICT
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June 30, 2023

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Board of Directors
Homestead Valley Sanitary District
Mill Valley, California

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

I have audited the financial statements of the Homestead Valley Sanitary District as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Homestead Valley Sanitary District's basic financial statements as listed the table of contents.

In my opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Homestead Valley Sanitary District as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of my report. I am required to be independent of the Homestead Valley Sanitary District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of financial statements that are free from material misstatement whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt the Homestead Valley Sanitary District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, I

- exercise professional judgment and maintain professional skepticism throughout the audit
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform auditing procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Homestead Valley Sanitary District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Homestead Valley Sanitary District's ability to continue as a going concern for a reasonable period of time.

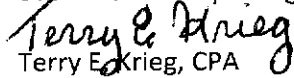
I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters I identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that *management's discussion and analysis* be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's representations to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 6, 2023, on my consideration of Homestead Valley Sanitary District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Homestead Valley Sanitary District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Homestead Valley Sanitary District's internal control over financial reporting and compliance.


Terry E. Krieg, CPA
Santa Rosa, California
November 6, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Homestead Valley Sanitary District's annual financial report presents our discussion and analysis of the district's financial performance during the fiscal year that ended on June 30, 2023. Please read it in conjunction with the district's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The net position of the district's business-type activities increased by about \$645,000 in fiscal 2023 compared to an increase of \$537,400 in fiscal year 2022 mainly because of the increase in sewer service rates.
- Total operating expenses in fiscal 2023 increased by a net \$82,030 compared to fiscal 2022 expenses. Of the \$82,030 increase in expenses, most was caused by higher personnel and treatment costs.
- In fiscal 2023, overall District revenues increased by about 13 percent mainly related to the increases in sewer service fees, grant revenues and investment income.
- There was about a 17 percent increase in the district's capital assets in fiscal 2023 caused by line improvement projects.
- The district's cash and investment holdings decreased by about \$145,000 at the end of fiscal 2023 for a total of about \$1.52 million. The district at the end of fiscal 2023 had no long-term debt outstanding.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* (this section), and the *basic financial statements including related disclosures*. The basic financial statements include one kind of statement that present both a short-term and long-term view of the district:

- *Proprietary* enterprise fund-type statements offer *short-* and *long-term* financial information about the activities that the district operates *like businesses*, such as the district's wastewater collection and treatment system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. Figure A-1 summarizes the major features of the district's financial statements, including the portion of the district they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

FIGURE A-1

Basic Financial Statement Features	Basic Financial Statements
Scope	Activities the District operates similar to a private business; the wastewater collection and treatment systems
Required Financial Statements	Statement of net position; statement of revenues, expenses, and changes in net position, and the statement of cash flows
Accounting Basis and Measurement Focus	Accrual accounting and economic measurement focus
Type of Asset and Liability Information	All assets and liabilities, both financial and capital and short term and long-term focus
Type of Inflow and Outflow Information	All revenues and expenses during the year regardless of when the cash is received

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basic Financial Statements

The basic financial statements report information about the district as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* the district's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position regardless of when cash is received or paid.

The basic financial statements report the district's *net position* and how it has changed. Net position – the difference between the district's assets and liabilities – is one way to measure the district's financial health, or *position*.

- Over time, increases or decreases in the district's net position are an indicator of whether its financial health is improving or deteriorating, respectively. The basic financial statements of the district consist of one category:
 - *Business-type activities* – The District charges fees to help it cover the costs of certain services it provides. All of the District's operations are accounted for in this category. *The district uses proprietary enterprise fund type accounting principles to account for all operations.* Proprietary accounting provides both long-and short-term financial information.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The district's' *combined* net position increased by about \$645,500 in fiscal year 2023 (See Table A-1.)

Table A-1
DISTRICT'S NET POSITION
(In Nearest Hundred Dollars)

	June 30		Percentage Change
	2023	2022	
Cash and investments	\$1,523,700	\$1,669,300	-9%
Other assets	42,600	15,200	180%
Capital assets, net	5,712,700	4,894,300	17%
Total assets	7,279,000	6,578,800	11%
Long-term debt	-	-	0%
Other liabilities	88,300	33,600	74%
Total liabilities	88,300	33,600	74%
Net position:			
Net investment in capital assets	5,712,700	4,894,300	17%
Unrestricted	1,478,000	1,650,900	-10%
Total net position	\$7,190,700	\$6,545,200	10%

The 9 percent decrease in cash and investments was a result of the net cash flows from all district's financial activities in fiscal 2023 being less than operating and capital outflows. The 180% increase in receivables was caused by delayed collection of receivables until shortly after year end. The other liabilities were higher because of contract retentions and payroll liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The district's change in net position in fiscal 2023 was about \$108,100 more than the increase in fiscal 2022.

Change in net position.

The district's total revenue increase of \$210,300 in fiscal 2023 was a net change consisting of about \$117,600 more from the rate increase and a significant change in investment income.

The district reported \$20,751 in interest income from Marin County Pool plus a reversal of the \$15,330 reversal of the 2022 decline in value and an additional \$11,069 fair value increase in 2023 on the district's share of the County pool for an aggregate of \$47,150 in investment revenue for 2023. The fair value of investments varies from year to year with increases and decrease reflective of general economic conditions.

TABLE A-2
District Revenues, Expenses and Changes in Net Position
(Rounded to Nearest Hundred Dollars)

	<u>Fiscal Year Ended June 30</u>		Percentage Change
	<u>2023</u>	<u>2022</u>	
Revenues:			
Program revenues:			
Charges for sewer service	\$1,379,600	\$1,262,000	9%
Other operating charges	63,300	56,000	13%
Property taxes	321,600	321,800	
Franchise fees	25,800	25,800	
Investment income	47,100	(14,300)	429%
Capital contributions and grants	24,200		100%
Total revenues	1,861,600	1,651,300	13%
Expenses:			
Salaries and benefits	233,200	203,100	15%
Intergovernmental treatment cost	707,600	685,300	3%
Line inspections, cleaning, repairs	67,100	52,400	28%
Insurance and claims	9,400	7,800	21%
Professional services	7,800	6,400	22%
Mapping and other	25,500	18,300	39%
Contributions	20,200		100%
Depreciation	145,300	140,600	3%
Total expenses	1,216,100	1,113,900	9%
Change in net position	645,500	537,400	20%
Net position, beginning	6,545,200	6,007,800	9%
Net position ending	\$7,190,700	\$6,545,200	10%

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Investment revenues in fiscal 2023 increased significantly because of the higher rates of return being experienced by Marin County's investment pool and increases in the overall fair value of the pool because of favorable market conditions and changes.

Table A-2 presents the cost of each of the district's largest functions from an expense perspective – operating expenses and depreciation on capital assets.

- ✓ There was in fiscal 2023 about a 9 percent net increase in total expenses compared to fiscal 2022 total expenses.

The district paid for these costs by using all of the direct charges collected from its customers and franchise fees.

On a cash flow basis, there was a net \$145,600 net decrease in the district's cash and investment holdings at the end of fiscal 2023 compared to the end of fiscal 2022. Despite the net cash outflow, the district was financially able to fund its 2023 operating and capital cost without the need to obtain external financing.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2023, the district's investment in capital assets increased by a net \$818,400 as a result of depreciation charge of about \$145,000 offsetting the capital improvements to lines of about \$964,000. Additional information about the district's capital assets can be found on page 16 of these financial statements.

TABLE A-3
DISTRICT INVESTMENT IN CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION
(Rounded to Nearest Hundred Dollars)

	June 30		Percentage Change
	2023	2022	
Original sewer lines	\$181,500	\$181,500	0%
Line replacements and extensions	6,945,400	5,981,800	16%
Contributed lines	134,100	134,100	0%
Totals	7,261,000	6,297,400	15%
Less accumulated depreciation	(1,548,300)	(1,403,100)	10%
Net capital assets	\$5,712,700	\$4,894,300	17%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-Term Debt

There was no new long-term debt issued by the district in fiscal 2023. The district has no long-term debt outstanding.

ECONOMIC FACTORS AND NEXT YEAR'S OPERATING PLAN AND RATES

Several major changes in the district's financial capabilities and operations are anticipated in the future.

In the capital area, the district has determined that it is in need of significant capital projects and programs. These will in large part deal with the aging infrastructure of the district which is now reaching the end of its useful life due to improvement needs in the district collection system. The district has undertaken a comprehensive evaluation of the collection system and developed a long-range capital improvement plan. In order to finance future improvements to the district's collection system and provide for normal anticipated cost increases, the district in fiscal 2021 held hearings and approved increases in the annual sewer service charges for the next four fiscal years. The base charge for a single-family residential dwelling unit increases from \$975 in fiscal 2021 to \$1,175 in fiscal 2022 and is scheduled to increase by \$100 per residential unit in each of the next three fiscal years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the General Manager, Homestead Valley Sanitary District, P.O. Box 149, Mill Valley, California, 94942.

HOMESTEAD VALLEY SANITARY DISTRICT
Statement of Net Position
June 30, 2023

ASSETS

Current assets:

Cash and investments	\$ 1,523,702
Receivables :	
Franchise fees	6,443
Accounts	9,488
Employees	20,000
Prepayments	6,697
	1,566,330
Total current assets	1,566,330

Capital assets being depreciated:

Collection system:

Original sewer lines	181,500
Contributed lines	134,140
Line extensions and replacements	6,945,429
Less accumulated depreciation	(1,548,355)
	5,712,714

Total capital assets being depreciated	5,712,714
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Total capital assets	5,712,714
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Total assets	7,279,044
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LIABILITIES

Current liabilities:

Accounts payable	6,826
Accrued liabilities	35,024
Contract retentions	46,508
	88,358

Total current liabilities	88,358
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NET POSITION

Net investment in capital assets	5,712,714
Unrestricted	1,477,972
	7,190,686
Total net position	\$ 7,190,686

The accompanying notes are an integral part of the financial statements

HOMESTEAD VALLEY SANITARY DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For The Fiscal Year Ended June 30, 2023

OPERATING REVENUES	
Sewer service fees	\$ 1,379,550
Franchise fees	25,836
Permit fees for additional fixtures	14,600
Other operating revenues	48,689
	<hr/>
Total operating revenues	1,468,675
	<hr/>
OPERATING EXPENSES	
Salaries and benefits	233,242
Intergovernmental treatment costs	707,553
Line cleaning, inspection and repairs	67,066
Liability and property insurance	9,377
Contract and professional services	7,800
Other operating	25,444
Contributions	20,405
Depreciation	145,276
	<hr/>
Total operating expenses	1,216,163
	<hr/>
Operating income	252,512
	<hr/>
NON-OPERATING REVENUES (EXPENSES)	
Property taxes	321,550
Operating grant	20,231
Investment income (loss)	47,150
	<hr/>
Total non-operating revenues	388,931
	<hr/>
Change in net position before capital contributions	641,443
Capital contributions - System connection	4,000
Change in net position	645,443
Total net position, beginning	6,545,243
	<hr/>
Total net position, ending	<u>\$ 7,190,686</u>

The accompanying notes are an integral part of the financial statements

HOMESTEAD VALLEY SANITARY DISTRICT
Statement of Cash Flows
For The Fiscal Year Ending June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,379,550
Other operating receipts	81,485
Payments to suppliers for goods and services	(835,602)
Payments to employees for services and benefits	<u>(226,613)</u>
Net cash provided by operating activities	<u>398,820</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property tax collections	<u>321,550</u>
Net cash provided by noncapital financing activities	<u>321,550</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital connections	4,000
Collection system improvements	<u>(917,152)</u>
Net cash used for capital and related financing activities	<u>(913,152)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest receipts	<u>47,150</u>
Net cash provided by investing activities	<u>47,150</u>
Net decrease in cash and cash equivalents	(145,632)
Balances-beginning of the year	<u>1,669,334</u>
Balances-end of the year	<u><u>\$ 1,523,702</u></u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating income (loss)	\$ 252,512
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:	
Depreciation expense	145,276
Change in assets and liabilities:	
Decrease (increase) in other receivables	(7,640)
Decrease (increase) in prepayments	237
Decrease (increase) receivables from employees	(20,000)
Increase (decrease) in accrued liabilities	26,627
Increase (decrease) in accounts payable	<u>1,808</u>
Net cash provided by operating activities	<u><u>\$ 398,820</u></u>
Noncash capital financing activities:	
None	

The accompanying notes are an integral part of the financial statements

HOMESTEAD VALLEY SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2023

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Homestead Valley Sanitary District was formed in 1931 under the Sanitary District Act of 1923. The District is governed by five elected Directors. The district's service area includes about 480 acres of watershed adjacent to the Southwestern boundaries of the City of Mill Valley in the County of Marin, California. The district provides sewerage collection and disposal services and contract administration for the collection of municipal solid waste and recycling services. The district has no component units. The district does not own or operate its own wastewater treatment plant. As a member of the Sewerage Agency of Southern Marin (A joint powers agency), the district is charged an annual fee for the treatment of its wastewater.

B. Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all the nonfiduciary activities of the district. For the most part, the effect of interfund activity has been removed from these statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Property taxes, service fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The district is engaged in only business-type activities and the district's basic financial statements consist of only the financial statements required for enterprise funds. These include management's discussion and analysis, a statement of net position, a statement of revenues, expenses, and changes in net position, a statement of cash flows, and these notes to the basic financial statements.

Proprietary enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the district are charges to the customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

HOMESTEAD VALLEY SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Position

1. Deposits and Investments

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The district's investment policy has been to invest all cash in the Marin County Treasurer's Investment Pool. Investments are reported at fair value. The County Pool is operated in accordance with applicable state laws and regulations, and the reported value of the district's investment in the County Pool is the same as the fair value of the County Pool shares.

2. Receivables, Property Taxes and Sewer Service Revenues

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Marin collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1 and become delinquent on December 10 and April 10. The district receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan." Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the district. The district recognizes property tax revenues in the fiscal year in which they are due to the district and accrues as receivable such taxes. Accordingly, the District provides for no allowance for doubtful accounts.

Sewer service fees (used to supplement tax revenues) are set by the district based upon rates applied to the number of equivalent dwelling units (EDUs) for nonvacant properties and adjusted flows applicable to commercial properties. The sewer service fees are incorporated into the property tax billings, and such fees are due in two equal installments on December 10 and April 10 following the assessment date. The district recognizes these fees as revenues in the year earned, which is also the year in which the service is provided to properties within the district. Under an arrangement with the County known as the Teeter Plan, the County advances substantially all of the sewer fees to the district each year, and the County bears the burden of any uncollectible accounts. Therefore, the District does not provide for an allowance for uncollectible accounts or bad debts.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

4. Designated Cash Equivalents and Investments

Cash equivalents and investments restricted for use in only capital projects are reported as noncurrent assets. The district follows the practice of reporting in this category the funds (if any such funds are held), which by Resolution of the Board of Directors, can only be used for the purpose of financing the design, construction, replacement, and improvement of related District facilities.

HOMESTEAD VALLEY SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Position

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (mainly the existing wastewater system) are reported in the financial statements. Capital assets are defined by the district as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets and assets constructed by developers are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the district is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Year</u>
Subsurface lines	40-50

6. Compensated Absences, Sick Leave, Other Post-Employment Benefits and Claims

The district's policy is to provide employees with no vacation or sick pay benefits. Accordingly, the District reports no liability for compensated absences/unpaid vacation or sick leave in these financial statements.

The district does not provide any other post employment retirement benefits (OPEB) such as retiree medical benefits, and accordingly the district reports no liability for such OPEB plans in these financial statements.

The district does not participate in the Public Employees Retirement System (PERS) and provides employees with no pension benefits; accordingly, the district reports no information about pension plans or contributions in these financial statements.

The district obtains insurance coverage for property and equipment, fidelity bonds, automobile liability and general liability, through its membership with the Sewerage Agency of Southern Marin (SASM). The district pays a prorate share of the premiums charged to SASM for coverage under a master policy. The risk of loss is transferred from the District to the SASM's insurance provider in exchange for the district's payment of annual premiums. Incurred and unbilled claims, if any, are accrued as a liability when it is probable that an asset has been impaired, the amount of the obligation can be reasonably estimated, and the claim is not covered by insurance. The district has a self-insured retention limit, similar to a deductible, of \$25,000.

HOMESTEAD VALLEY SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Position

7. Long-term Obligations

In enterprise fund-type financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. The district has no outstanding long-term debt obligations.

8. Net Position

In the financial statements, fund net position is reported in two categories as follows:

- Net investment in capital assets - This category of net position reports the net book value of capital assets used in District operations including construction in progress all net of related accumulated depreciation and reduced by the carrying value of related long-term debt issued to finance the acquisition of such assets.
- Unrestricted - Unrestricted net position represented all other assets net of related liabilities available for use by the district.

2. Detailed Notes

A. Cash Equivalents and Investments

Cash equivalents and Investments consisted of the following on June 30:

Marin County Treasurer's Investment Pool:	
District operating	\$ 1,481,065
Payroll checking account	<u>42,637</u>
 Total cash equivalents and investments	 <u>\$ 1,523,702</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the district's deposits may not be returned to it. The district's policy for deposits is that they will all be deposited with the County of Marin Treasurer's Investment Fund. The district maintains no separate bank checking, savings, money market, or time deposit accounts other than a payroll clearing account. The district had no custodial credit risk as to deposits because the \$42,637 commercial account was fully insured by the FDIC.

Custodial Credit Risk - Investments. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the District's investments were invested in specific securities. All of the District's monies in the Marin County Treasurer's Investment Pool are not evidenced by specific securities; and therefore, are not subject to custodial credit risk.

Credit Risk- Investments. State law limits investments in various securities to certain levels of risk ratings issued by nationally recognized statistical rating organizations. It is the County of Marin's Treasurer's Investment Pool policy to comply with those requirements. The Marin County Treasurer's Investment Pool is rated AAAF/'S1' by Fitch Ratings.

HOMESTEAD VALLEY SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2023

2. Detailed Notes (Continued)

A. Cash Equivalents and Investments (Continued)

Fair Value Measurements – Investments. The district categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs and Level 3 inputs are significant unobservable inputs. The district has no separately held investments and its funds are held primarily by the Marin County Investment Pool which pool values its investments monthly using real-time pricing viewed as Level 1 inputs.

B. Receivables:

Receivables at year end consisted of \$15,931 in franchise fees and customer accounts. The \$20,000 employee receivable represents an inadvertent overpayment to the district manager which amount was subsequently repaid through payroll system in July and August of 2023.

C. Capital Assets

Capital asset activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	963,660	(963,660)	-
Total capital assets, not being depreciated	-	963,660	(963,660)	-
Capital assets, being depreciated:				
Original sewer lines	181,500	-	-	181,500
Contributed lines	134,140	-	-	134,140
Line extensions and replacements	5,981,769	963,660	-	6,945,429
Total capital assets, being depreciated	6,297,409	963,660	-	7,261,069
Less accumulated depreciation for:				
Original lines	(181,500)	-	-	(181,500)
Contributed lines	(92,451)	(2,683)	-	(95,134)
Line extensions and replacements	(1,129,128)	(142,593)	-	(1,271,721)
Total accumulated depreciation	(1,403,079)	(145,276)	-	(1,548,355)
Total capital assets, being depreciated, net	4,894,330	818,384	-	5,712,714
Business-type activities capital assets, net	<u>\$ 4,894,330</u>	<u>\$ 1,782,044</u>	<u>\$ (963,660)</u>	<u>\$ 5,712,714</u>

HOMESTEAD VALLEY SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2023

3. Other Information

A. Jointly Governed Organizations

The Homestead Valley District is a member of the Sewerage Agency of Southern Marin (SASM). The SASM was formed in 1979 as a joint power's agency with six members: The City of Mill Valley, the Richardson Bay, Almonte, Alto and Homestead Sanitary Districts and the Tamalpais Community Services District. The SASM is a stand-alone governmental entity, and it is not financially accountable for any other governmental entity, and it has no component units. SASM's primary function is the maintenance and operation of its owned wastewater treatment plant and related lines and facilities. Member agencies pay annual assessments to SASM, based upon the concept of their respective number of equivalent dwelling units (EDUs), in exchange for the treatment and disposal of wastewater collected through their respective collection systems and conveyed to SASM's treatment plant and facilities. Member agency assessments are expected to increase in future years as SASM undertakes plant modernization and improvement projects.

In August of 2016, the District entered into a financing agreement with the SASM wherein the district agreed to maintain its net system revenues at a level equal to at least 120 percent of its obligation to SASM to support the SASM Bonds. The SASM issued \$38,000,000 in revenue bonds to provide financing for improvements to its wastewater treatment plant and refund other debt obligations. The district's annual financial obligations under the JPA Agreement and the Financing Agreement are passed through to the district each year in the form of a billing for an annual assessment payable in two equal semi-annual installments. These annual assessments are reported by the district as intergovernmental treatment costs in the statement of revenues, expenses, and changes in net position and amounted to \$707,553 in fiscal 2023.

Under the Joint Powers Agreement, all excess administration, operations, and maintenance funds, from any source, are the property of SASM and not its members. If excess monies are available, the SASM may, but is not required to, reduce member assessments for the subsequent year. There are no provisions for sharing among the members the net earnings of SASM. Accordingly, the Homestead Valley Sanitary District is deemed to have no equity interest in SASM. Separate financial statements of the SASM are available at the City of Mill Valley's Department of Finance.

B. Risk Management

The district obtains general liability, property, and automobile insurance through its membership in the SASM. Each member agency is assessed a premium based on ratable exposure. The SASM purchases insurance coverage from the California Sanitation Risk Management Authority (CSRMA) for SASM and the member Districts.

The risk of loss is transferred from the Districts to the Authority under the arrangement to the extent that the insurance coverage pertains to the district's membership in SASM. Subject insurance coverage does not extend to claims arising from the sole acts of the district independent of its SASM membership. The Authority provides coverage for the first \$500,000 in general liability and auto claims with the district being responsible for the first \$25,000 and a \$25,000 sewer backup deductible limit. The Authority provides coverage for the next \$15 million in claims by purchasing commercial insurance coverages. The Authority provided insurance coverage for the buildings and plant of all SASM members. Flood insurance is also provided with a \$2 million coverage limit which limit is shared with other member agencies and has a \$500,000 deductible in zones A and V and a \$100,000 deductible in other zones. The district paid \$6,987 in fiscal 2023 related to a residential sewer line backup. Uninsured losses in fiscal 2020 were \$17,720, in fiscal 2021 were \$7,280. for a cumulative loss of \$25,000.

HOMESTEAD VALLEY SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2023

3. Other Information (Continued)

B. Risk Management (Continued)

Liabilities of the District are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The district had no significant uninsured claim liabilities on June 30, 2023, and 2022.

C. Contingencies and Commitments

Litigation. In the opinion of the district's general counsel, there is no pending or threatened litigation which would have a material adverse impact on the accompanying financial statements.